

Message Text

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ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 DRC-01 SAM-01 NSC-10

SS-20 STR-08 CEA-02 /139 W

----- 010808

R 222030Z FEB 74

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 7552

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PASS COMMERCE, EX-IM BANK

EO 11652: N/A

TAGS: EFIN, CI

SUBJECT: REOPENING EX-IM BANK LENDING TO CHILE

1. SUMMARY: YEARS OF DISINVESTMENT HAVE MADE CHILE A QUOTE SELLERS MARKET UNQUOTE FOR EXPORTERS, INDUCING OFFICIAL CREDIT AGENCIES OF SOME OTHER COUNTRIES TO BEGIN TO LOOSEN RESTRAINTS ON LENDING TO CHILE. EMBASSY RECOMMENDS USG STUDY POSSIBILITY QUICKLY REOPENING EXIMBANK LENDING ACTIVITIES HERE TO ENSURE US SUPPLIERS GOOD SHARE OF CHILEAN IMPORTS. END SUMMARY.
2. EMBASSY'S TRADE OPPORTUNITY REPORTING OVER FIVE PAST MONTHS REFLECTS FACT THAT AFTER MORE THAN THREE YEARS OF POSTPONEMENT OF NEW INVESTMENT AND REPLACEMENT OF OLD, VIRTUALLY ALL SECTORS OF CHILEAN ECONOMY ARE STARVED FOR CAPITAL GOODS, MOST OF WHICH MUST BE IMPORTED. EMBASSY REPORTING OF IMMEDIATE NEEDS ALONE, WHICH IS NOT EXHAUSTIVE, INDICATES POTENTIAL EXPORT OPPORTUNITIES VALUED CLOSE TO US\$1,000 MILLION OVER NEXT TWO YEARS.

3. GOC'S NEED TO MAKE AN IMMEDIATE START ON CHILE'S RECONSTRUCTION AND FACT THAT ALMOST ALL OF WIDE-RANGING IMPORT
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NEEDS CAN BE JUSTIFIED AS PRIORITY WILL INFLUENCE GOC TO BUY

FIRST THOSE IMPORTS FOR WHICH APPROPRIATE FINANCING IS AVAILABLE. IN OTHER WORDS A SUPPLIER IS IN A GOOD POSITION, SIMPLY BY OFFERING CREDIT, TO DIRECT GOC PRIORITIES TOWARD PROJECTS, PRODUCTS AND SERVICES THAT SUPPLIER COUNTRY IS MOST ANXIOUS TO EXPORT.

4. CHILE'S ATTRACTIVENESS AS QUOTE SELLERS MARKET UNQUOTE IS INDUCING OFFICIAL EXPORT CREDIT INSTITUTIONS OF THIRD-COUNTRY SUPPLIERS TO LOOSEN RESTRAINTS ON LENDING TO CHILE. FOR EXAMPLE, THE CANADIAN EDC'S VAGUE UNDERTAKING TO CONSIDER CREDITS QUOTE AFTER THE PARIS CLUB MEETING UNQUOTE TO CONSTRUCT AND EQUIP AN IRON ORE PORT AT GUACOLDA HAS APPARENTLY SEWN UP PROJECT FOR CANADIAN ENGINEERING FIRM AND CANADIAN SUPPLIERS. IN GENERAL, QUESTION WHICH OFFICIAL EXPORT FINANCING ORGANIZATIONS IN EUROPE AND JAPAN ARE FACING IS WHEN TO RE-ENTER CHILEAN MARKET AND IN WHAT MAGNITUDE RATHER THAN WHETHER TO RESUME LENDING HERE.

5. UNLESS US CREDITS ARE MADE AVAILABLE, US SUPPLIERS MAY FIND THAT SIMILAR CREDIT OFFERS BY OTHER COUNTRIES HAVE EXHAUSTED GOC'S ALLOWABLE NEW SHORT AND MEDIUM TERM DEBT LIMITS (\$180 MILLION IN 1-15 YEAR CREDITS IN 1974) AS SET BY THE IMF, LEAVING US SUPPLIERS WITH SEVERE DISADVANTAGE IN COMPETING FOR LARGE AND LONG-TERM POSSIBILITIES PRESENTED BY PROJECTS NOW AWAITING GOC GO-AHEAD. WE WILL GET SOME BUSINESS ANYWAY, BUT SOME OF THE REALLY GOOD OPPORTUNITIES WILL BE MISSED.

6. EMBASSY UNDERSTANDS THAT EXIMBANK POLICY IS TO RESUME SOON EXPORT INSURANCE AND GUARANTEE PROGRAMS IN CHILE ALTHOUGH WE ARE UNAWARE THAT THESE FACILITIES HAVE ACTUALLY BEEN USED AS YET. GOC IS MOST INTERESTED IN EXIMBANK DIRECT LENDING. SO ARE POTENTIAL US INVESTORS, PARTICULARLY THOSE WHO WOULD WANT LARGE AMOUNTS OF HEAVY EQUIPMENT FOR MINING.

7. RECOMMENDATION. EMBASSY RECOMMENDS THAT APPROPRIATE AGENCIES OF USG CONSIDER SERIOUSLY THE DESIRABILITY OF REOPENING QUICKLY (SHORTLY AFTER PARIS CLUB) EXIMBANK LENDING ACTIVITIES IN CHILE. IN ADDITION TO INCREASING US EXPORTS, SUCH ACTION WILL ALSO PROMOTE OTHER US ECONOMIC LIMITED OFFICIAL USE

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INTERESTS, HELP GOC'S ECONOMIC RECOVERY PROGRAM, AND BE TANGIBLE EVIDENCE TO CHILEANS OF US SUPPORT FOR PRESENT GOVERNMENT.POPPER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, TRADE OPPORTUNITY REPORTS, FOREIGN INVESTMENTS, BANKS, LOANS, FOREIGN POLICY POSITION
Control Number: n/a
Copy: SINGLE
Draft Date: 22 FEB 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: morefirh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974SANTIA00872
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: SANTIAGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740215/aaaaaobn.tel
Line Count: 110
Locator: TEXT ON-LINE
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: morefirh
Review Comment: n/a
Review Content Flags:
Review Date: 25 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <25 APR 2002 by elyme>; APPROVED <10 JUN 2002 by morefirh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REOPENING EX-IM BANK LENDING TO CHILE
TAGS: EFIN, CI, XMB
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005